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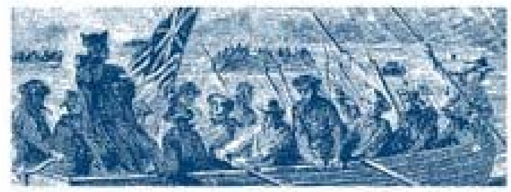

Market Commentary
July 31, 2008

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Quick Take on GDP Report

For those of you wondering why the Gross Domestic Product figures have been so resilient despite falling home sales, automobile sales, and employment, we want to offer the following observations about today's data. (Today's report of second quarter GDP growth included a negative number for the fourth quarter of 2007, which is coincident with our March 10 Commentary where we posited that a recession began in the fourth quarter of last year.)

First, our concern has been that the consumer in the United States has become weakened because of falling employment, tighter credit, and a large debt overhang from the housing bubble. The reason we are focused on what is going on inside the United States, is because much of the demand for goods and services produced around the world emanates from the consumer right here in the United States. That is not to say demand conditions outside of the United States are not meaningful, but it is hard to envision a robust global economy when the engine of the largest economy in the world is not functioning properly.

The Gross Domestic Product, or GDP, figures produced by the Bureau of Economic Analysis are designed to measure production and not demand. Therefore, the headline numbers do not directly address our primary concern over slipping consumer demand. According to Bernard Baumohl, executive director of the Economic Outlook Group, LLC, and author of "The Secrets of Economic Indicators," the data for "gross domestic purchases and for the GDP move in tandem — except for periods when the cost of imports surges. That can happen when oil prices shoot up or if the dollar plummets in value, which automatically makes imports more expensive. In such instances, gross domestic purchases turns out to be a better gauge." These data points are contained within the GDP report itself, but to understand their computation requires a bit of explanation.

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Gross Domestic Product				
Measure	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Real Production	1.9%	0.9%	-0.2%	4.8%
Real Purchases	-0.5%	0.1%	-1.0%	2.6%
Production Inflation	1.1%	2.6%	2.5%	1.5%
Purchases Inflation	4.3%	3.4%	2.7%	2.2%

Consider the table above. The headline statistics are real production (real GDP) and production inflation (GDP Deflator). Those numbers currently show modest economic growth of 1.9% with low inflation of just 1.1%. Even a casual observer of the economy might wonder what these figures are missing. Where is the collapse in automobile demand? Where is the credit crunch? Where are the lost jobs? It just doesn't square with what we commonly know about the economy's troubles lately. Perhaps if we sharpen our focus on core demand in the United States by removing exports and inventory changes, we get a picture that many would agree more accurately reflects the current conditions. Here we see that core consumer demand at home is a negative -0.5% while prices are up 4.3%. That reality, in our view, more closely reflects the experience of the "man on the street" and not the "headline" figures on the economy.

Perhaps more important is the fact that investors who have looked at the economy's trends in this light have been better able to spot the deterioration in the economy that has weighted on financial markets for most of the past year. So while the Bureau of Economic Analysis' report on production shows growth, the crux of our issue has not been on the production side. It has been on what happens to consumer demand both currently and prospectively. A falling dollar will generally curtail growth in imports and strengthen exports. A falling dollar and shifting trade balance is not necessarily a sign of strength but can be a result of weakness. On the bright side, we are encouraged by the apparent drawdown in inventories, which is a potential harbinger of improved production trends looking out into future quarters.

Recommended Asset Allocation

	Growth	Balanced	Conservative
INCOME & OTHER	14%	39%	64%
DOMESTIC BONDS	11%	30%	49%
Money Market	1%	2%	3%
Short-Term Treasuries	2%	5%	8%
Intermediate Term Treasuries	1%	3%	5%
Inflation Protected Treasuries	1%	3%	5%
Investment Grade Corp Bonds	4%	12%	20%
High Yield Corporate Bonds	2%	5%	8%
COMMODITIES & OTHER	3%	9%	15%
Preferred Equity	1%	2%	3%
REITs	1%	2%	3%
Gold	2%	5%	8%
COMMON STOCKS	86%	61%	36%
DOMESTIC COMMON STOCKS	66%	47%	28%
U.S. SIZE & STYLE	66%	47%	28%
Large Cap Growth	32%	23%	14%
Large Cap Value	16%	11%	6%
Mid Cap Growth	10%	7%	4%
Mid Cap Value	6%	4%	2%
Small Cap Growth	1%	1%	1%
Small Cap Value	1%	1%	1%
FOREIGN	20%	14%	8%
DEVELOPED	13%	3%	5%
EAFE Growth	10%	7%	4%
Germany	3%	2%	1%
EMERGING	7%	5%	3%
Brazil	4%	3%	2%
South Korea	3%	2%	1%
TOTAL PORTFOLIO	100%	100%	100%

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